

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

| | | |
|-------------------------------|---|---------------------|
| THE APPLICATION OF EQUITABLE |) | |
| PRODUCTION COMPANY, |) | |
| SUCCESSOR TO BLAZER ENERGY |) | CASE NO. 2003-00317 |
| CORP., INC., AND SOUTHEASTERN |) | |
| GAS COMPANY TO ADJUST RATES |) | |

O R D E R

On September 11, 2003, Equitable Production Company ("Equitable Production") filed an application to increase rates to its customers who are served pursuant to KRS 278.485. On October 13, 2003, the Commission established this proceeding to investigate the reasonableness of the proposed rate increase. On November 3, 2003, Equitable Production submitted additional information in response to Commission Staff's October 22, 2003 request. The Commission received comment letters from 70 of Equitable Production's customers. Five customers requested and were granted intervenor status in this case.

Equitable Production currently charges two rates, one for customers previously served by Blazer Energy Corp. ("Blazer") and another for customers previously served by Southeastern Gas Company ("Southeastern"). Equitable Production proposes to adjust only the portion of the rates related to gas cost, leaving the non-gas portion of the rate as approved by the Commission in Blazer's last rate case.¹ Equitable Production bases its proposed adjustment for the gas portion of the rate on the Inside FERC

¹ Case No. 1998-00489, Application of Blazer Energy Corp., Inc., A Wholly Owned Subsidiary of Eastern States Oil & Gas, Inc. to Adjust Rates, Order dated February 9, 2000.

Columbia Transmission Appalachian Monthly Index (“Appalachian Index”). The proposed rate adjustment is as follows:

| | <u>Current Rate</u> | <u>Proposed Rate</u> | <u>% Increase</u> |
|------------------------|---------------------|----------------------|-------------------|
| Blazer Customers | \$4.364 | \$6.393 | 47% |
| Southeastern Customers | \$5.30 | \$6.393 | 21% |

In Blazer’s last rate case, the total approved rate was \$4.364 per Mcf, which was composed of non-gas costs of \$1.464 per Mcf and a gas cost rate of \$2.90 per Mcf. Equitable Production states in its application that the rate increase is necessary because of the tremendous price volatility in the natural gas markets and energy markets in recent years. In support, Equitable Production supplied 24 months of Appalachian Index prices, which showed a price per Mcf as low as \$2.41 and as high as \$11.02.² Other gas price indices, such as the New York Mercantile Exchange, experienced similar price variations over the same period.

The Commission received 70 comment letters from customers, all of which opposed any increase in the rates based on a variety of reasons. The reasons stated by the customers focused on the low-income levels in the service area, the detrimental effect the rate increase would have on household budgets, poor service quality, and billing problems.

In determining whether to grant Equitable Production’s request in part or in whole, the Commission must consider the requirements of 807 KAR 5:026 that govern, among other things, the conditions under which a gathering system may request an increase in rates. One consideration set forth in the regulation is whether the proposed

² Appendix A of Application.

rate increase is less than the percentage change in the price index during the most recent 12-month period immediately preceding the date the proposed tariff was filed. The Producer Price Index for Residential Natural Gas showed a 34 percent increase for the most recent available period, which was the 12-month period ending July 2003.³ Equitable Production's proposed rate is a 47 percent increase for Blazer and a 21 percent increase for Southeastern.

A second consideration is whether the proposed rate exceeds the highest average volumetric rate of a local gas distribution utility at the time of the filing. The highest rate approved by the Commission as of September 2003 was \$16.9636 per Mcf, which is not exceeded by Equitable Production's proposed rate of \$6.393.

Finally, 807 KAR 5:026 allows a rate increase if the proposed percentage increase is greater than the percentage change in the price index while the rate proposed is below the highest prevailing rate. In such a case, the gas company can submit cost data to support the proposed increase. Equitable Production supplied 24 months of gas prices in support of its request, using the two-year weighted average price of \$4.93 per Mcf as its proposed gas cost. This gas cost appears reasonable in light of the volatility and magnitude of natural gas prices in recent years. The current retail rates of \$4.363 for Blazer and \$5.30 for Southeastern have both been less than the wholesale price of natural gas on several occasions over the last year. The Commission also notes that Equitable Production bears additional price risk

³ U.S Department of Labor, Bureau of Labor Statistics, Producer Price Index-Commodities. Available at <http://data.bls.gov/servlet/SurveyOutputServlet>, last visited on November 21, 2003.

because it does not change its gas rate component with a quarterly Gas Cost Adjustment as do fully-regulated local distribution companies.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the rates proposed by Equitable Production and set out in Appendix A of this Order, are fair, just, and reasonable, in the public interest, and should be approved effective with the date of this Order.

IT IS THEREFORE ORDERED that:

1. The rates proposed by Equitable Production are approved effective with the date of this Order.
2. Within 20 days of the date of this Order, Equitable Production shall file with this Commission its revised tariff showing its effective date, the date of issue, and a statement that it is issued pursuant to this Order.

Done at Frankfort, Kentucky, this 11th day of December, 2003.

By the Commission

ATTEST:


Executive Director

APPENDIX

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2003-00317 DATED December 11, 2003

The following rates and charges are prescribed for the customers served by Equitable Production Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

All Customers:

| | Base Rate | Gas Cost | Total Rate |
|---------|-----------|----------|------------|
| All Mcf | \$1.464 | \$4.93 | \$6.393 |